

Weekly Contributions

21 June 1949

CURRENT DEVELOPMENTS

NORTHERN DIVISION: The conversion of the Costa Rican Army into a police force will not reduce the negligible military capabilities of that country (p. 2).

CENTRAL DIVISION: Ecuador's Plaza administration is threatened by the trend toward unification of leftist elements (p. 2).

SOUTHERN DIVISION: Paraguay's President Molas López is shifting toward personal rule and Argentine orientation (p. 2).

SPECIAL SUBJECTS

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Weekly Contributions,   
(CIA Working Paper)

21 June 1949

1. COSTA RICA: The conversion of the Costa Rican army into a police force -- the Guardia Civil -- will have little effect on future Central American power-balance rivalries. The same number of men will remain under arms: 445 men and 35 officers who were in the original army and 1,325 men formerly members of the customs guard and the traffic police. The proposed training program that provides for the sending of 20 policemen every six weeks to the US Army Military Police School in the Panama Canal Zone and the conversion of the US Army-supervised Military School at Guadeloupe into a police training school -- still under US Army supervision -- will not, it is believed, reduce the negligible military capabilities of the country.
  
2. ECUADOR: Leftist Opposition to Plaza Administration Apparently Achieving Greater Unity  
At the recent Liberal Party assembly the radical elements overwhelmingly gained control of the party and elected Col. Carlos Mancheno and Dr. Julio Moreno Espinosa to positions of leadership. Mancheno, whose role in the opposition up to the time of the Liberal meeting was uncertain, is evidently taking his followers into the leftists' camp. The leftist orientation of Moreno is well known and his participation in the Liga del Honor (leftist subversive movement in the army) provides a connecting link between the military and political anti-Plaza elements. Any successful exploitation of the possibilities inherent in this development would constitute a major threat to the stability of the Plaza administration. Plaza's hold on the popular imagination does, however, for the time being, constitute a "hedge" against trouble.
  
3. PARAGUAY: President Shifting toward Personal Rule and Argentine Orientation  
Ambassador Warren reports the Embassy's convictions that (1) the Molas López government is beginning to orient its course toward Argentina and (2) President Molas, who is gradually growing stronger at the expense of the Democratic Colorados with whom he shares government responsibilities, now desires to be President in fact as well as in name. The Ambassador comments that if the above proves true, it means that Paraguay is again headed for turmoil and that US interests in democracy will not be well served.  concurs with Embassy Asunción to the extent of agreeing that Molas will make every effort to consolidate the government under his control and at the same time strive toward closer

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relations with Argentina. The fact that Argentina practically controls Paraguayan export trade places the latter country to some extent within the natural sphere of influence of the former, and the move on Kolas' part to mend the rather bad Argentine-Paraguayan relations of the last two years may be considered only a recognition of the economic "facts of life". There is in Paraguay, however, a strong feeling within certain groups that their country must, in order to maintain any reality of national independence, to some extent balance Argentine against Brazilian influence. These groups can be expected to oppose any rush into the Argentine camp. In addition, the Democratic Colorados may be expected to resist any attempt by the President to reduce the party to a subordinate position. Furthermore, both the Democratic Colorados and other groups will resist an effort on the President's part to assume a dictatorial role. Therefore, the degree of turmoil in Paraguay will depend on the extent of Kolas' moves, rather than their direction; the outcome of such turmoil would depend, as always in Paraguay, on the position taken by the armed forces.

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Significance of Recent Caribbean Legion Activities

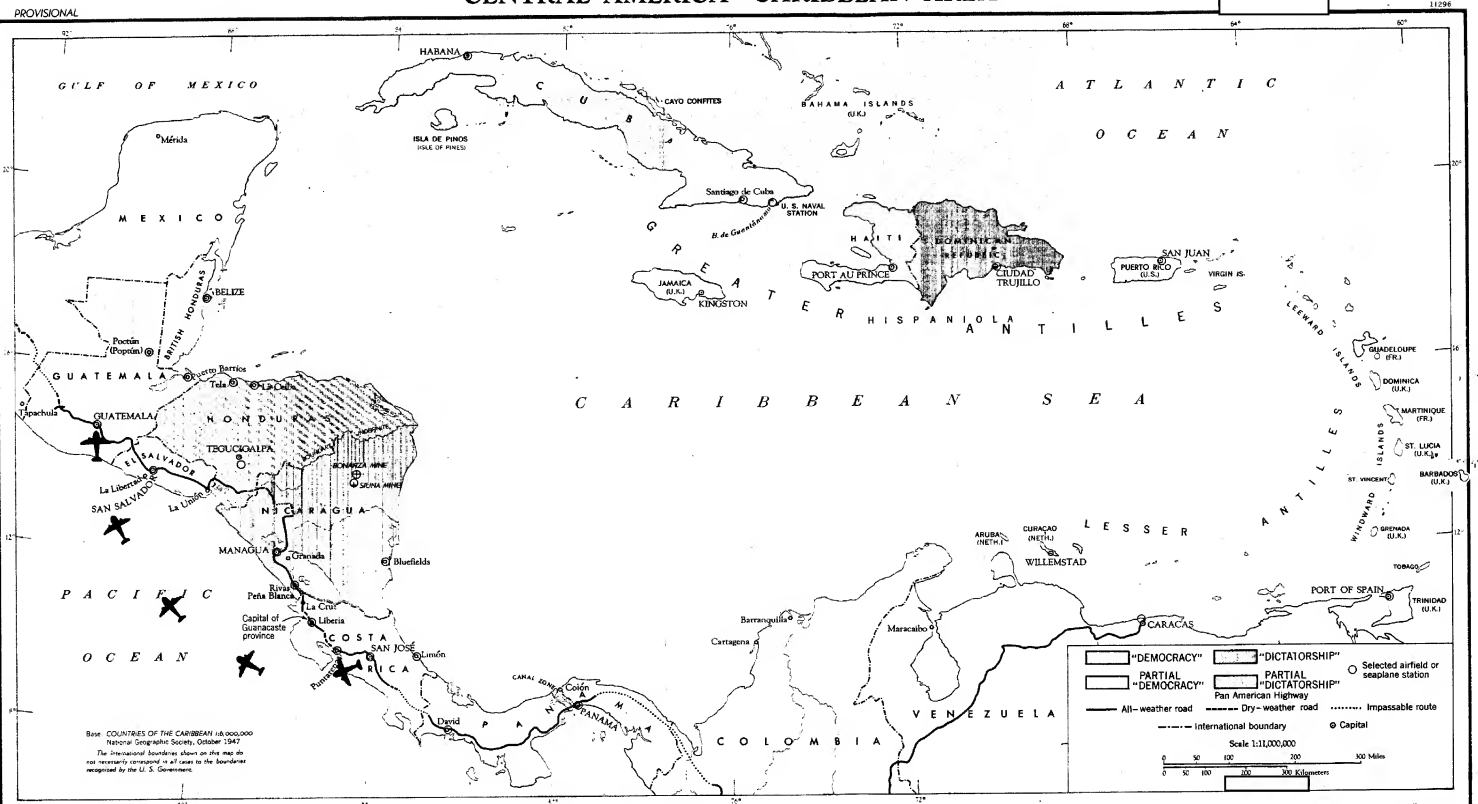
Recent revolutionary activity in the Caribbean area, involving the shift of the Caribbean Legion's base of operations from Costa Rica to Guatemala, increases the possibility of violence somewhere in the Caribbean in the near future. Indications have been growing recently that the Legion is formulating operational plans and has the arms with which to mount a formidable attack.

These facts, in addition to a gradual shift in the balance of power favorable to such countries as Costa Rica, Cuba, and Guatemala (the countries actively supporting the Caribbean Legion), augment uncertainty in the region and encourage the revolutionaries to take action. Although no clue to the direction of such an attack can be found in the present grouping of forces in Guatemala, the most likely targets of the Caribbean Legion are: (1) the Panamanian Government, against which the Legion might act in collaboration with Arias partisans who seek to overthrow the Diaz government; (2) the Somoza regime in Nicaragua; and (3) the Trujillo government in the Dominican Republic. The Caribbean Legion is likely, as cover for its real attack, to engage in preliminary feints and maneuvers intended to confuse observers. However, an outbreak of fighting in the Caribbean area -- regardless of its immediate point of focus -- would aggravate the complex governmental interrelationships and could result in considerable bloodshed and a widespread breakdown of hemispheric solidarity. (Published in CIA Weekly, 17 Jun 49; based on CIA Intelligence Memorandum 186, 16 Jun 49.)

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# CENTRAL AMERICA—CARIBBEAN AREA



25X1 Weekly Contributions, [ ]  
(CIA Working Paper)  
Situation Memorandum 37-49

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The Current Situation in Venezuela

(Summary: The situation in Venezuela is at this time generally favorable for the US. Prospects for continued political stability have improved. The proposed national budget cut will not seriously interfere with the army's purely military program. The curtailment in oil production has not jeopardized Venezuela's economic stability; prospects for the development of iron production continue to be bright. The government continues to be distrustful of the labor unions, and continues its careful surveillance of the Communists. The government of Venezuela can be expected to support the US in major international issues.)

Political

Prospects for continued stability have generally improved, despite the fact that there still is considerable hostility towards the junta, both among AD members and among leaders within the government, and despite the possibility of alliances which could crystallize into an effective opposition movement.

25X1 The increased effectiveness of the military junta's control over the country is best evidenced by the notable absence of serious strikes or similar incidents since early March. The junta is exercising control in various ways: by dealing promptly with potential troublemakers in the army (e.g., by retiring Mario Vargas and Tomás Mendoza from active service and transferring José Elio Vargas to Caracas); by pursuing a vigorous investigation of Communist and labor activities; [ ]

25X1 Political party activities continue to be generally suppressed, although in mid-May, the URD party was permitted to hold a convention. the first full-scale political meeting since the coup. [ ]

25X1 [ ] junta members have approached Dr. Caracciola Parra Pérez as a possible presidential candidate, there has been no promise that elections will be held in the near future, and there is no convincing evidence that the junta is prepared to permit any return to normal constitutional processes.

The key to political stability continues to be the army, since it is improbable that any movement to divide or overthrow the junta could succeed without army support. Reports of disunity within the army have

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markedly decreased, although the possibility of an alignment of officers opposed to Pérez Jiménez cannot be ignored.

In spite of the continued need for vigilance and use of the police power, the junta is no longer under the necessity of dealing exclusively with the problem of self-preservation, but is now in a position to turn its attention more and more to the requirements of normal governmental administration and planning.

#### Military

The capabilities of the armed forces are and will continue to be limited to the maintenance of internal order. Within this limit, the army may be expected to develop into a more efficient organization as the training program of the US Army Mission proceeds, and as orders for new equipment become filled. The proposed 10 percent cut in the 1949-50 budget may curtail somewhat the present program of expansion of the armed forces, although in view of its dependence upon the army's support the junta will probably apply economy measures to other departments as far as possible.

#### Economic

The present economic situation is in general favorable, as is the outlook for the immediate future. Petroleum production, in which US security interests are centered (see  Wkly, 29 Mar 49) is the prime determinant of economic conditions in Venezuela. Cutbacks in oil production, begun in January as the result of an oversupply in the world market, brought the total output for February to a point 10 percent lower than that of the record month of December 1948; production now seems to have leveled off at this reduced rate (1,000,000 to 1,200,000 barrels daily), and there is no reason to believe a further decline is imminent. The decrease in oil production has not created an unemployment problem, because those dismissed have been absorbed in public works or elsewhere. The expected reduction in revenue has caused the government to propose a budget 10 percent less than that approved for 1948-9, but even with this cut the proposed budget closely approximates actual government expenditures in 1947-8. In the field of petroleum policy, the junta has created a National Commission on Petroleum and Mineral Policy, whose stated purpose is to find the basis for a "truly national" petroleum policy. The granting of new concessions, suspended since 1945, will probably be resumed according to a plan which will favor the smaller companies and those not previously operating in Venezuela (see  Wkly, 26 Apr 49). Although the petroleum policy now under consideration may be less favorable to the three major companies, there is at present no reason to believe that US interests will be seriously affected.

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An economic development of considerable importance to the US is the exploitation of rich iron ore deposits south of the Orinoco. Subsidiaries of Bethlehem Steel and US Steel are preparing installations, and Bethlehem expects to begin exporting ore by the end of 1949. Republic Steel is now negotiating for concessions. Within a few years the iron mining industry should provide the government with an important source of revenue, and should tend to counteract the effects of any long-term decline in petroleum production.

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Venezuela's position in the field of foreign trade is unique among Latin American countries, as that country still enjoys a dollar surplus. Pressure of domestic manufacturers for higher import duties or similar protective devices (see  Wkly, 29 Mar 49) has led to the creation of a commission to study import duties, and it is likely that the government will formally request renegotiation of the US-Venezuelan trade agreement.

The labor unions in Venezuela continue to operate under the 1947 Labor Law, and the contracts made under this law remain in force. The dissolution of the country's principal labor federation, the CTV (Confederación de Trabajadores Venezolanos) did not extend to local syndicates, which were required only to reorganize their directorates. Union funds, frozen at the time of the coup, have been gradually released. Political activity among the labor unions has been suppressed, since the junta cannot at present hope for active support from the unions. The junta now feels, according to Embassy reports, that the former Minister of Labor, Corredor, in his zeal to stamp out AD influence, allowed too much latitude to the Communist unions and the Unión Republicana Democrática party (URD). This is the reason given for the appointment of Jose Rojas Contreras on 3 June to replace Corredor.

#### Subversive

The Communist Party, whose greatest potential danger to US interests lies in its influence among the petroleum workers, appears not to have greatly strengthened its position in the labor movement. The visit of the labor leader Jesús Faría to the trade union congress in Moscow in March coincided with a spate of Soviet propaganda against US petroleum interests in Venezuela. The junta has not outlawed the Communist Party, not only because the Party has avoided provocation, but also, as the junta has explained, because it wishes to avoid driving the Communists underground where they might become allied with AD elements. Meanwhile, the junta's Security Police has increased its surveillance of Communist activities, and strong action against the Party will probably be taken if sufficient provocation is given.

#### International

In the international field two problems in Venezuela, concerning human rights and freedom of association, threatened to provoke a storm of

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25X1 charges and counter-charges, but both are now approaching solution. The first problem arose when Uruguay proposed to raise in the UN General Assembly the issue of political prisoners detained without trial in Venezuela since the November coup (see  Wkly, 3 May 49). After informal consultation with US officials, Venezuela announced a plan for the gradual release of political prisoners, Uruguay withdrew its proposal, and now it appears that the question is unlikely to arise again, as Venezuela appears to be carrying out its program in good faith. A related problem was discussed at the regional conference of the ILO in Montevideo in May. The conference adopted a mild resolution taking cognizance of alleged violations of freedom of association of trade unions in Venezuela and Peru. Venezuela, though not participating in the conference, invited the ILO to send a commission to investigate labor conditions. The commission is expected to arrive in June. In spite of instances of independent action, such as the resumption of diplomatic relations with Spain in April, the government of Venezuela can be expected to continue to support the US in major international issues.

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